



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE TLOKWE CITY COUNCIL**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the financial statements of the Tlokwe City Council set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, and cash flow statement, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Tlokwe City Council as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and the DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

8. As disclosed in note 33 to the financial statements, the corresponding figures for accumulated surplus, property plant and equipment, investment property, expenditure and creditors have been restated as a result of errors discovered at, and for the year ended 30 June 2014.

## **Unauthorised, irregular and fruitless and wasteful expenditure**

9. As disclosed in note 36.1 to the financial statements, unauthorised expenditure in respect of prior years of R235 248 036 has not yet been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 36.3 to the financial statements, irregular expenditure of R27 954 946 was incurred in the current year and irregular expenditure from prior years of R364 670 504 has not yet been dealt with in accordance with section 32 of the MFMA.
11. As disclosed in note 36.2 to the financial statements, fruitless and wasteful expenditure of R134 138 was incurred in the current year and fruitless and wasteful expenditure from prior years of R1 552 150 has not yet been dealt with in accordance with section 32 of the MFMA.

## **Material under spending of the budget**

12. As disclosed in note 44 to the financial statements, the municipality materially underspent the capital budget by R9 165 633, on various infrastructure capital expenses. As a consequence, service delivery was affected negatively.

## **Impairments and material losses**

13. As disclosed in note 28 and 38.12 to the financial statements, impairments of R52 443 392 (2013: R19 016 036) and material losses of R30 225 058 (2013: R20 784 490) respectively were incurred as a result of significant impairment of debtors and electricity and water losses.

## **Additional matters**

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Unaudited supplementary schedules**

16. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## REPORT ON OTHER LEGAL AND REGULARITY REQUIREMENTS

17. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Objective 1: Basic service delivery and Infrastructure development on pages XX to XX
  - Objective 5: Planning and human settlement on pages XX to XX
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the selected objectives are as follows:

### Objective 1: Basic service delivery and infrastructure development

#### Usefulness of reported performance information

23. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 65% of the reported objectives, 72% of the reported indicators and 97% of the reported targets are not consistent with the objectives, indicators and targets as per the approved IDP. This is due to the lack of proper planning and communication between the performance manager and the different departments during the drafting of the IDP and service delivery budget implementation plan (SDBIP).
24. Section 25(2) of the MSA determines that an IDP adopted by a municipal council may be amended in terms of section 34 and remains in force until an IDP is adopted by the next elected council. Material changes were made to the objectives, indicators and targets in the annual performance report, without adoption by the council of the municipality. This was due to the unavailability of the performance manager as he was on sick leave.

#### Reliability of reported performance information

25. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the infrastructure objective. This was due to the fact that

the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the objective.

## **Objective 5: Planning and human settlement**

### **Usefulness of reported performance information**

26. Section 41(c) of the MSA requires that the IDP should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 58% of the reported objectives, 81% of the reported indicators and 84% of the reported targets are not consistent with the objectives, indicators and targets as per the approved IDP. This is due to the lack of proper planning and communication between the performance manager and the different departments during the drafting of the IDP and SDBIP.
27. Section 25(2) of the MSA determines that an IDP adopted by a municipal council may be amended in terms of section 34 and remains in force until an IDP is adopted by the next elected council. Material changes were made to the objectives, indicators and targets in the annual performance report, without adoption by the council of the municipality. This was due to the unavailability of the performance manager as he was on sick leave.
28. The FMPPi requires that indicators be well defined. A total of 38% of the indicators were not well defined. This was because management did not adhere to the requirements of the FMPPi.

### **Reliability of reported performance information**

29. I did not raise any material findings on the reliability of the reported performance information for Objective 5: Planning and human settlement.

### **Additional matter**

30. I draw attention to the following matter:

### **Achievement of planned targets**

31. Refer to the annual performance report on pages XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 23 to 29 of this report.

### **Compliance with legislation**

32. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Strategic and performance management**

33. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and regulation 1 and 9(1)(a) of the Municipal planning and performance management regulations (MPPMR).
34. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and regulation 12(1) and 12(2)(e) of the MPPMR.
35. The performance management system and related controls were not maintained as it did not describe and represent the processes of performance planning, monitoring, measurement,

review, reporting and improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the MPPMR.

### **Procurement and contract management**

36. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
37. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by Supply Chain Management (SCM) regulation 5.
38. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
39. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
40. Awards were made to providers whose directors/ principal shareholders are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c). Similar non-compliance was reported in the prior year and the municipality did not take disciplinary action against the officials involved.
41. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
42. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.

### **Annual financial statements and annual performance report**

43. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements to revenue and current liabilities identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### **Expenditure management**

44. Reasonable steps were not taken to prevent irregular expenditure as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
46. Payments were made from the municipality's bank account without the approval of the accounting officer, as required by section 11(1) of the MFMA.

### **Consequences management**

47. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.



48. Investigations were not instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.

### **Human resource management and compensation**

49. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by regulation 14(2)(a) of the Regulations on Minimum Competency Levels.
50. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b) of the Regulations on Minimum Competency Levels.
51. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of section 67(d) of the MSA .
52. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

### **Waste management**

53. The municipality operated its wastewater treatment facility without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
54. The municipality's operational activities at its waste disposal sites and wastewater treatment facility(s) contravened or failed to comply with the requirements of a waste management license, section 67(1)(f) and (h) of the NEMWA and section 151(1)(c) and (i) of the NWA.
55. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.
56. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

### **Internal control**

57. I considered internal control relevant to my audit of the financial statements, the performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on non-compliance with legislation included in this report.

### **Leadership**

58. Sound integrity and ethical values to promote a culture of honesty, with ethical business practices and good governance, protecting and enhancing the best interests of the entity are not understood and implemented in order to set the standard to ensure compliance with laws and regulations.
59. Adequate oversight responsibility regarding performance reporting and compliance with laws and regulations is not exercised.
60. Effective HR management is not implemented, to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. An effective organisational structure for placing appropriately skilled people is not in place. There was a lack of continuity in key management positions due to their employment contracts that ended, leading to these positions being filled by acting officials. The additional workload and pressure on the



individuals who are acting in these positions had a negative impact on the financial and performance reporting responsibilities and monitoring compliance with laws and regulations.

61. Policies and procedures are not adequately implemented to enable and support understanding and execution of internal control objectives, processes, and responsibilities. Furthermore, policies and procedures are not adequately communicated, to ensure that all officials understand the operating thereof and can implement the procedures as required.

### **Financial and performance management**

62. The municipality did not implement a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support performance reporting and compliance with laws and regulations.
63. Management's internal controls and processes over the preparation and presentation of financial statements were not able to ensure that the financials were free from material misstatements. As a result, material corrections had to be made.
64. Management failed to design and implement formal controls to review and monitor compliance with applicable laws and regulations and performance reporting.

### **Governance**

65. Management do not have an adequate risk strategy that addresses performance reporting and non-compliance with laws and regulations.
66. The internal audit department was not effective during the financial year. Council and management failed to recognise the value that internal audit can add to the municipality.
67. The audit committee did not provide oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations.

Potchefstroom

30 November 2014



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